The Macroeconomic Effects of the Federal Reserve's Conventional and Unconventional Monetary Policies

ERIC SWANSON

Discussion by Thomas Drechsel (University of Maryland)

Norges Bank/IMF *Future of Macroeconomic Policy* Conference

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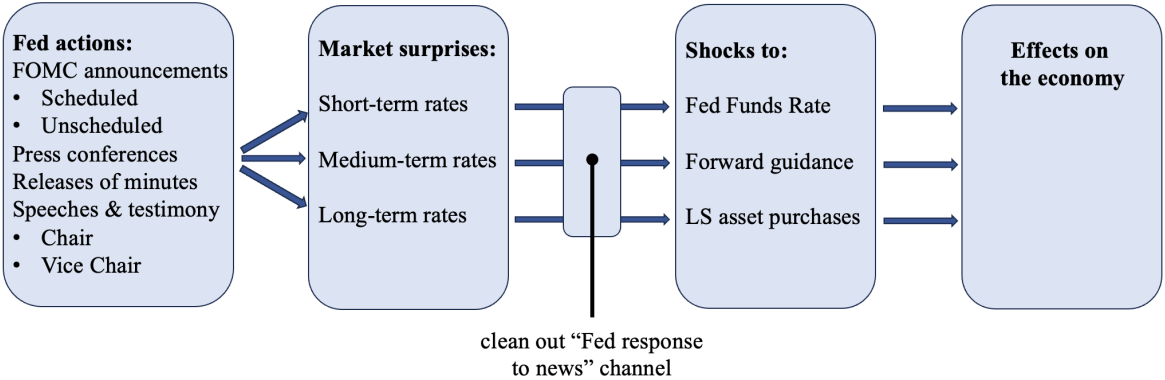
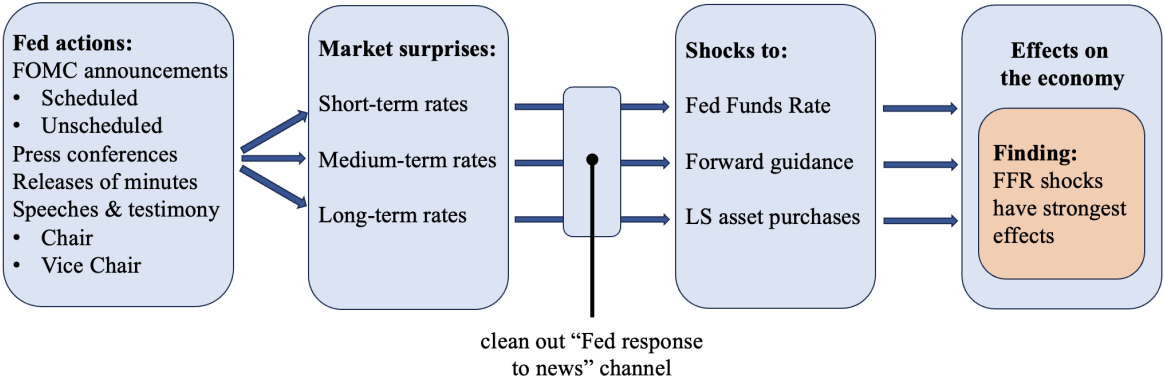
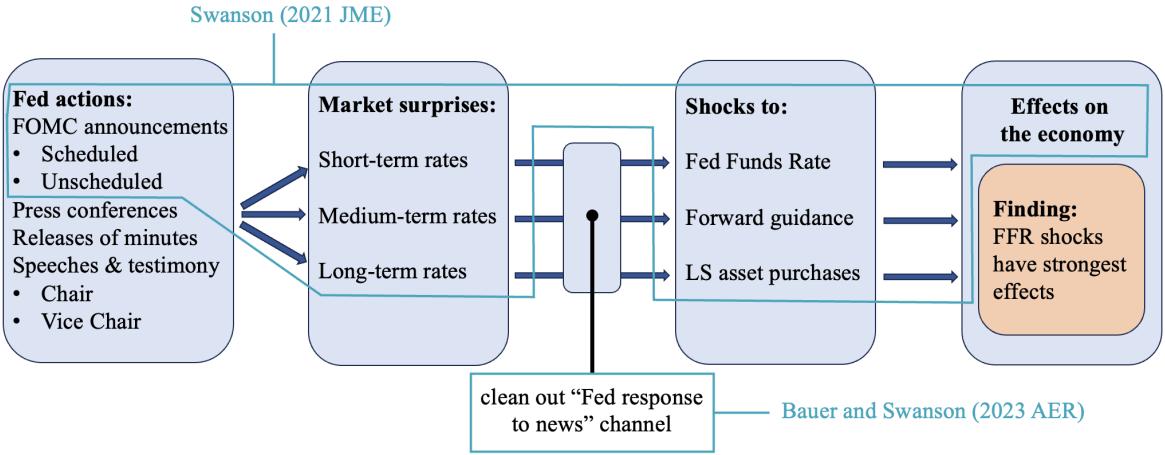
SUMMARY


Fed actions:
FOMC announcements
• Scheduled
• Unscheduled
Press conferences
Releases of minutes
Speeches & testimony
• Chair
• Vice Chair
Market surprises:
Short-term rates
Medium-term rates
Long-term rates
Shocks to:
Fed Funds Rate
Forward guidance
LS asset purchases
Effects on the economy
clean out "Fed response to news" channel

SUMMARY - FINDING



SUMMARY - RELATION TO ERIC'S OTHER WORK



HIGHLIGHTS OF THIS PAPER

- New variation: more than $1,000$ shifts in U.S. monetary policy!
- Combines important insights
  - Distinguishing between FF, FG, and LSAP (Swanson, 2021)
  - Cleaning surprises to get true shocks (Bauer and Swanson, 2023)
- Findings relevant at current juncture for the Fed

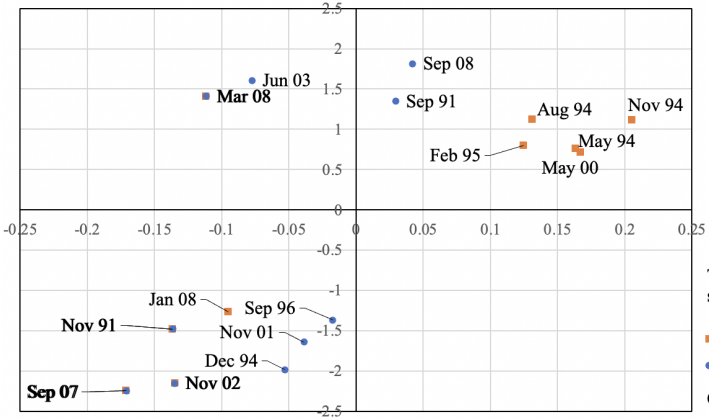
OVERVIEW OF MY COMMENTS

1. Sense-check of separation between different policies
2. Challenges to comparing effects of different policies
3. "The future of macroeconomic policy"

COMMENT 1: SEPARATION OF DIFFERENT POLICY CHANGES

- Key innovation: separate different types of policies
- Sense-check:
  - Aruoba and Drechsel (2022) identify shocks to target rate
  - Alternative approach to using surprises in market rates
  - FF surprises should capture similar variation to target FF shocks while FG and LSAP surprise should not

COMMENT 1: SEPARATION OF DIFFERENT POLICY CHANGES



Correlation between Aruoba-Drechsel shocks and Swanson (2021) surprises in full sample

with FF surprises **+0.49**

with FG surprises **-0.08**

with LSAP surprises **+0.05**

The plot illustates the connection between our shocks and FF surprises for largest realizations

- 10 largest Aruoba-Drechsel shocks
- 10 largest FF surprises from Swanson (2021)

Correlation for largest shocks: **+0.77**

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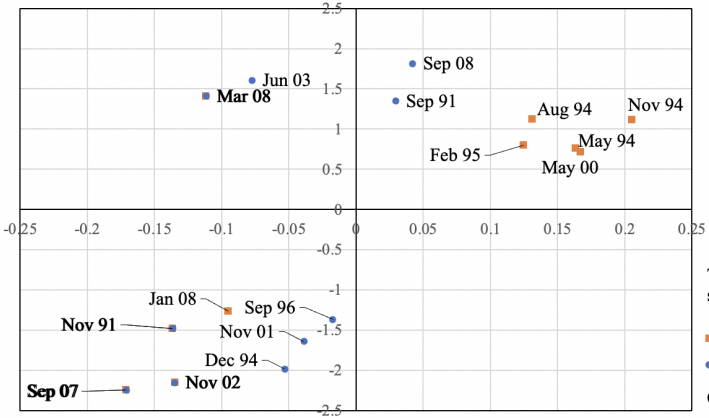

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with FF surprises **+0.49** ✓

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Makes sense!

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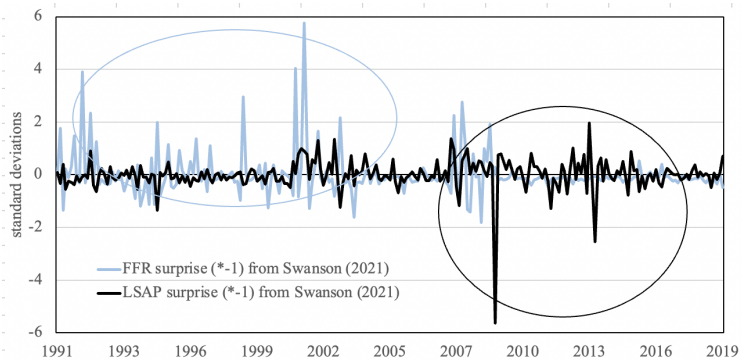
COMMENT 2: CHALLENGES TO COMPARING POLICIES

- Paper concludes FFR shocks have strongest effects on the economy
- Challenges for comparison
  1. Non-standard policies are state-dependent
  2. Normalizations are tricky

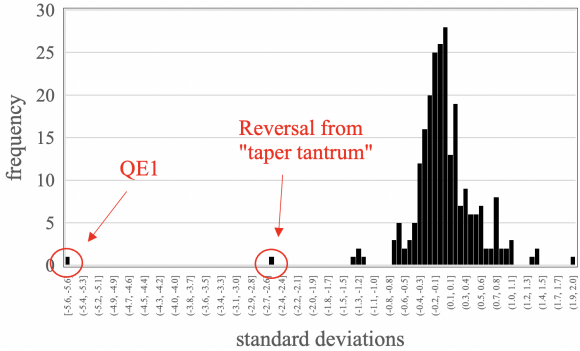
COMMENT 2.1: NON-STANDARD POLICIES ARE STATE-DEPENDENT



- Comparison across policies challenging → occur in different states of the world
- State-dependent effects also shown theoretically, e.g. Cúrdia and Woodford (2011)

COMMENT 2.2: NORMALIZATIONS ARE TRICKY

- All policies are normalized to same FFR change
- But not clear what variation in asset purchases corresponds to such a change
- Also: are different LSAP shocks comparable with each other?

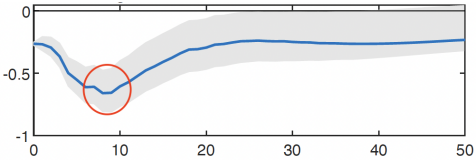


RECOMMENDATIONS

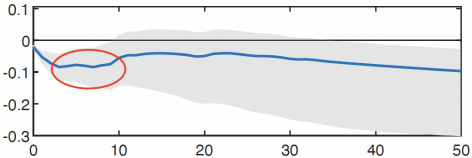
- Focus less on which policy has stronger effects
- Focus more on
  - Different transmission mechanisms of different policies
  - The fact that FFR changes have strong effect in an absolute sense
  - And what that means for the future

COMMENT 3: "THE FUTURE OF MACROECONOMIC POLICY"

- Let me focus purely on the lag profile of the estimates



Industrial production response



CPI response

- After roughly 9 months
  - Maximum impact on real economic activity has materialized
  - Substantial part of impact on price level has materialized

    → noteworthy that price level response typically much slower in other studies

COMMENT 3: "THE FUTURE OF MACROECONOMIC POLICY"

- If we go 9 months back in time, 225-300bp hikes had already occurred

$\Rightarrow$ Max. impact of roughly half of total 500bp rate increases "in the system" today

- Implies following (courageous) back-of-the-envelope calculation
  - Change in outcome since March 2023 $\approx$ remaining impact of past Fed policy
  - CPI inflation has come down from 9% to 5%
  - So if Fed did nothing more, should see another 4 p.p. reduction
  - Of course this ignores nonlinearitites & other shocks occurring in the meantime
- **Pause in June FOMC meeting consistent with Eric's estimates**

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